

March __, 2009

South Carolina Electric & Gas Company - Annual Review of Base Rates for Fuel Costs

SETTLEMENT AGREEMENT

WHEREAS, the Parties have engaged in discussions to determine if a settlement would be in their best interest;

WHEREAS, following these discussions the Parties have each determined that their interest and the public interest would be best served by settling matters in the above-captioned case under the terms and conditions set forth below:

1. The Parties agree to stipulate into the record before the Commission the direct and rebuttal testimony and exhibits of the following witnesses without objection, change, amendment or cross-examination with the exception of changes comparable to that which would be presented via an errata sheet or through a witness noting a correction.

A. SCE&G witnesses:

- (1) Thomas D. Gatlin
- (2) Joseph M. Lynch
- (3) J. Darrin Kahl
- (4) Gerhard Haimberger (Direct and Rebuttal Testimony)
- (5) Keith C. Coffey, Jr.
- (6) Allen W. Rooks
- (7) Joseph K. Todd
- (8) Forrest E. Hill (Rebuttal Testimony) (to save costs, the Parties agree Mr. Hill need not appear in person at the hearing in this case)
- (9) John S. Beier (Rebuttal Testimony)

B. ORS witnesses:

- (1) Jacqueline R. Cherry
- (2) A. Randy Watts

C. SCEUC witness:

- (1) Kevin W. O'Donnell (to save costs, the Parties agree Mr. O'Donnell need not appear in person at the hearing in this case)

D. CMC witness:

- (1) Richard Thomas (Direct and Surrebuttal Testimony) (to save costs, the Parties agree Mr. Thomas need not appear in person at the hearing in this case)

2. As a compromise, all Parties adopt, accept, and acknowledge as the agreement of the Parties that:

- A. SCE&G's under recovered fuel cost balance for the period February 1, 2008 through April 30, 2009 is projected to be the amount of \$111,468,230. This under recovery consists of historical under recovered costs for the period February 1, 2008 through December 31, 2008 and estimated under recovered costs for the period January 1, 2009 through April 30, 2009.
- B. SCE&G agrees to recover an amount equal to the actual under-collected amount which is projected to be approximately \$111,468,230 over a three year period commencing with the first billing cycle for May 2009. The Parties also agree that SCE&G shall be allowed to charge and recover carrying costs on an amount equal to approximately 2/3 of the actual under-collected amount, that is, the amount calculated to be the difference between the total actual under-collected amount as of April 30, 2009 and the amount of \$37,156,076.67. For the three-year recovery period, the applicable interest rate used to calculate the carrying costs under this Settlement Agreement is the rate of interest as of the first day of each month during the three year period for 3-year U.S. Government Treasury Notes, as reported in the *Wall Street Journal*, plus an all-in spread of 65 basis points (0.65 percentage points), subject to the right of any Party to request in SCE&G's 2010 and 2011 fuel proceedings that the Commission set a different interest rate to be applied to the uncollected balance in the second and third years of the three-year recovery period. The total carrying cost rate to include the 65 basis points shall not exceed 6%. The three year collection of the under recovery and its applicable carrying costs shall operate as follows:
 - (1) For the period of the first billing cycle for May 2009 through the last billing cycle for April 2010, SCE&G shall recover \$37,156,076.67 in the fuel rates set forth in paragraph 2.D below. As described in paragraph 2.B. above, interest on the remaining approximate 2/3

under-collected balance shall accrue and be recovered during the 3-year recovery plan.

- (2) Beginning with the first billing cycle for May 2010 and ending with the last billing cycle for April 2012, SCE&G shall recover the remaining approximate $\frac{2}{3}$ under-collected balance in equal monthly installments of $\frac{1}{24}$ per month plus interest on the remaining balance. Interest shall be calculated consistent with the calculation and recovery mechanism set forth in paragraph 2.B above, subject to the right of any Party to request in SCE&G's 2010 and 2011 fuel proceedings that the Commission set a different interest rate to be applied to the uncollected balance in the second and third years of the three-year recovery period.
- (3) Attachment A provides an example of the recovery procedure agreed to in this Settlement Agreement. This example assumes an under-collected balance as of April 30, 2009 in the amount of \$111,468,230. The parties understand, acknowledge and agree that the under-collected balance used in Attachment A is for illustrative purposes only. The parties further understand, acknowledge and agree that the actual under-collected balance used in Attachment A may be greater than, equal to or less than the amount of \$111,468,230 and that the actual calculation and monthly carrying costs to be collected will be based on the actual under-collected amount as of April 30, 2009. A sample carrying cost rate is used in Attachment A for illustrative purposes only and the Parties understand that the carrying cost rate may change on a month to month basis as rates for the 3-year U.S. Government Treasury Notes fluctuate, either increasing or decreasing during the three-year recovery period. The Parties understand, acknowledge and agree that the interest rate to be applied to the uncollected balance in the second and third years of the three-year recovery period is subject to the right of any Party to request in SCE&G's 2010 and 2011 fuel proceedings that the Commission set a different interest rate.

- C. The Parties agree and recommend that the first dollars recovered in the succeeding twelve months beginning with the first billing cycle for May 2009 shall be applied to the under recovery so that in the next fuel proceeding for SCE&G any under recovery will be for the period for May 2009 through April 2010.

- D. The appropriate fuel factors for SCE&G to charge for the period beginning with the first billing cycle in May 2009 extending through the last billing cycle for April 2010 are listed below. These fuel factors include environmental costs and an amount equal to the under recovered fuel costs described in paragraph 2.B(1).

Class	Base Fuel Cost Component (cents/KWH)	Environmental Fuel Cost Component (cents/KWH)	Total Fuel Costs Factor (cents/KWH)
Residential	3.621	0.050	3.671
Small General Service	3.621	0.041	3.662
Medium General Service	3.621	0.033	3.654
Large General Service	3.621	0.025	3.646
Lighting	3.621	-	3.621

- E. The Parties agree the fuel factors set forth above are consistent with S.C. Code Ann. § 58-27-865 (Supp. 2008). The Parties further agree that any and all challenges to SCE&G's historical fuel costs recovery for the period ending December 31, 2008, are not subject to further review; however, the projected fuel costs for periods beginning January 1, 2009, and thereafter shall be open issues in future fuel costs proceedings held under the procedure and criteria established in S.C. Code Ann. § 58-27-865 (Supp. 2008).
- F. Included in the above environmental fuel cost is approximately \$14,081,647 in credits to retail electric customer classes from the SO₂ account balance ending December 31, 2008. Discussion of the SO₂ account and credit is set forth in the testimony of ORS witness A. Randy Watts.
- G. The Parties agree to accept all adjustments and recommendations as put forth by ORS in the testimony of ORS witnesses A. Randy Watts and Jacqueline R. Cherry with the exception of the interest rate as agreed to in this settlement agreement in paragraph 2.B.
- H. SCE&G agrees to apply any money received from litigation, arbitration, or negotiated settlements with coal suppliers where the dispute is for non-deliveries, defaults or other similar non-performance issues or for other matters related to or associated with S.C. Code §58-27-865 to reduce the fuel costs account. SCE&G also agrees to provide to the parties quarterly reports

showing the Company's efforts to seek compensation for non-deliveries, defaults or other similar non-performance.

- I. The parties understand that ORS is monitoring the large increase in transportation costs and may take action before appropriate forums. To the extent possible and as reasonably requested by ORS, SCE&G, CMC and SCEUC agree to cooperate and provide assistance to ORS.
- J. SCE&G agrees to provide to ORS, CMC and SCEUC the following:
 - (1) Copies of the monthly fuel recovery reports currently filed with the Commission and ORS; and,
 - (2) Quarterly forecasts beginning with the quarter ending June 30, 2009 of the expected fuel factor to be set at SCE&G's next annual fuel proceeding and SCE&G's historical over/under recovery to date. SCE&G agrees it will put forth its best efforts to forecast the expected fuel factor to be set at its next annual proceeding; however, all Parties agree that these quarterly forecasts will not be admitted into evidence in any future SCE&G proceedings.
- K. SCE&G agrees to perform an analysis of the feasibility, costs and potential benefits of operating a financial hedging program for its coal supplies for electric generation. During the first sixty (60) days of the analytical process measured from the date of execution of this agreement, at each Party's discretion, SCE&G agrees to receive and consider input from a Party regarding the design of the analysis and the factors to be included in the analysis for evaluation. However, SCE&G retains ultimate control over the design of the analysis and the factors to be evaluated. SCE&G will provide a copy of an interim report of said analysis to the Parties by September 15, 2009. Each Party agrees to provide SCE&G with written comments, if any, to the interim written report by November 15, 2009. After receiving the comments of the Parties, if any, SCE&G agrees to complete its analysis and issue a final written report by January 15, 2010 and provide a copy of same to the Parties. The report will also be filed with SCE&G's testimony in the 2010 fuel hearing. The volumes of coal that are the subject of this analysis will be forecast using SCE&G's standard generation forecasting models and fuel cost forecasting models, supplemented by all relevant data, and the analysis shall explicitly address, among other things, electric system demand, weather, plant operating characteristics, forced

outages, scheduled plant outages, and the market price of power. The underlying data used in this analysis will be made available for inspection by ORS upon the execution of a mutually agreeable confidentiality agreement. The underlying data used in this analysis will also be made available for inspection by other Parties upon the execution of a mutually agreeable confidentiality agreement to the extent that SCE&G determines the data not to be business confidential and as such exempt from disclosure notwithstanding the execution of said confidentiality agreement. By executing this Settlement Agreement, no Party shall waive or otherwise prejudice its right to seek an order from the Commission if such Party disagrees with any assertion by SCE&G that certain data or information is business confidential or otherwise protected from disclosure notwithstanding that the Party has executed a confidentiality agreement.

3. The Parties agree this Settlement Agreement is reasonable, in the public interest and in accordance with law and regulatory policy.

4. Further, ORS is charged with the duty to represent the public interest of South Carolina pursuant to S.C. Code §58-4-10(B) (Supp. 2008). S.C. Code §58-4-10(B)(1) through (3) reads in part as follows:

“...‘public interest’ means a balancing of the following:

- (1) Concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) Economic development and job attraction and retention in South Carolina; and
- (3) Preservation of the financial integrity of the State’s public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.”

5. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution in the above-captioned proceeding. The Parties agree to use

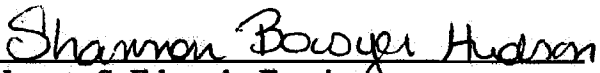
reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

6. This written Settlement Agreement contains the complete agreement of the Parties. There are no other terms and conditions to which the Parties have agreed. This Settlement Agreement integrates all discussions among the Parties into the terms of this written document. The Parties agree that this Settlement Agreement will not constrain, inhibit or impair their arguments or positions held in future proceedings, nor will the Settlement Agreement or any of the matters agreed to in it be used as evidence or precedent in any future proceeding. If the Commission should decline to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty.

7. This Settlement Agreement shall be interpreted according to South Carolina law. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

WE AGREE:

Representing and binding the South Carolina Office of Regulatory Staff



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South Carolina Office of Regulatory Staff

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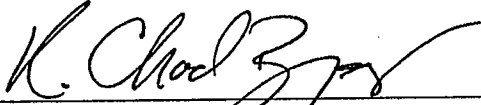
WE AGREE:


Representing and binding South Carolina Energy Users Committee

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WE AGREE:

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WE AGREE:

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Three Year Amortization

The carrying costs and recovery amounts set forth in this document have been calculated using the projected under recovered fuel cost balance as of April 30, 2009 which is projected to be in the amount of \$111,468,230. The actual calculation, carrying costs and monthly carrying costs to be collected will be based on the actual under-collected amount as of April 30, 2009.